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BLOG POST May 12th 2022

Breaking dependency on Russian gas: perspectives from France and Germany

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Reading time: 8 min

Russia's invasion of Ukraine on February 24, 2022 has exacerbated the crisis over natural gas supplies to the European Union that has been ongoing since the previous summer. In addition to rising prices, there is now a strategic need to reduce Russian energy imports as quickly as possible, while also considering the risk of a sudden supply disruption, which has already occurred in Poland and Bulgaria. To address the crisis, in March 2022 the EU published a first strategy, "REPowerEU", details of which will be released on May 18. Most Member States have also announced national level measures, highlighting a range of different approaches. This blog post focuses on four lessons that can be learned from comparing the French and German responses to the fossil fuel supply crisis and associated price increases

Since autumn 2021, EU countries were hit hard by rising natural gas, electricity and fuel prices due to a rapid economic recovery and other economic and geopolitical factors. The invasion of Ukraine aggravated the crisis and put the spotlight onto Europe's supply strategy, given that it imports about 40% of its natural gas, 27% of its oil and 46% of its coal from Russia, with the level of dependence varying widely from one Member State to another. Germany is particularly dependent on Russian imports, which in 2021 accounted for 55% of its gas supply, 35% of its oil and 45% of its coal, compared to 17%, 9% and 26% respectively for France in 2020.

Two contrasting approaches to fight against rising prices, both generally too focused on the short term

Differences in the level of dependence partly explain the differences in the responses of the French and German governments to the energy crisis. France was quick to advocate sanctions against Russia, including an embargo on importing fossil fuels – initiatives that were blocked by Germany (and other Member States) with the exception of an embargo on coal, that the EU-27 approved on 8 April, the supply of which is the least difficult to diversify, but which will have the weakest economic impact on Russia, and an oil embargo that is still under discussion. In practice, Germany has significantly reduced its Russian natural gas imports between February and mid-April 2022, from 55 to 35% of its supply, while France saw its dependency remain relatively stable from 26 to 32% between February and March[1] .

In contrast, measures have been taken in both France and Germany to counter the significant additional costs for households and companies linked to the increase in energy prices. France, whose presidential and legislative elections were then imminent, has thus introduced a tariff shield ("bouclier tarifaire") for electricity and gas from the end of 2021 as well as a tax reduction on petrol and diesel, in addition to €2 billion for businesses, an additional €100 "energy voucher" for low-income households and a €100 "inflation" bonus distributed to 38 million inhabitants at a total cost of €25 billion. As a comparison, the I4CE institute estimates that an additional investment of €13 to €17 billion per year compared to 2019 would be needed to make up the shortfall on the pathway to carbon neutrality in France.

Germany, which had just held elections to the Bundestag, waited until March 2022 to announce measures to reduce the cost of public transport (in particular with a €9 monthly ticket giving unlimited access to local and regional public transport from June to August 2022 for a total cost of €4 billion), petrol and diesel, as well as one-off payments and tax deductions for households and workers, at a total estimated cost of almost €20 billion.

However, the limiting of price increases is a questionable strategy as it comes at a high cost to public authorities and does not enable the targeting of very low-income households or the most vulnerable companies according to their needs. Moreover, the price approach hinders behavioural changes and the investments necessary to sustainably reduce fossil fuel dependence.

Weak use of demand levers in both France and Germany

To date the French and German responses have focused on measures to compensate for rising prices. Yet the sustainable reduction of energy demand is an essential lever for both climate objectives and for securing the continent's energy supply[2], [3] , and acting on it is all the more necessary that price increases are being mitigated or reach the economic actors with delay. Thus, while France has increased the grant available for replacing fossil fuel heaters by €1,000, financial support for energy renovation in general has not increased and the appropriate conditions for large-scale and efficient renovations have not been achieved, as discussed in a recent IDDRI blog post

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In comparison, Germany has boosted the budget allocated to support energy renovations and low-energy buildings to nearly 10 billion euros for 2022 and introduced stricter energy efficiency criteria for new buildings from 2023. This support scheme is also undergoing reform in order to shift support from new construction towards renovation, following an extensive revision and a major increase in 2021, with grants of up to €75,000 for major renovations, and soft loans of up to €150,000. These measures must be maintained over time to ensure that the renovation effort for building decarbonization is sustained.

In addition to efficiency measures, the effect of which is structural and long-lasting, limited short-term restrictive strategies can also be adopted, for example by limiting the use of electricity (switching off advertising screens) and natural gas (lowering thermostat settings), and could be key for the winter of 2022-2023, as outlined in a recent IDDRI policy brief and an Agora study.

These measures have the advantage of being effective, reversible and relatively simple to implement, even though they are no substitute for long-term fossil fuel exit strategies. While the crisis response strategies in both France and Germany mention lowering the heating temperature of buildings, a generalized plan for a temporary reduction in consumption has yet to be formulated4 . Such a strategy could be adopted, through consumer awareness campaigns or other initiatives such as temporary speed limits on roads–something that Germany, the only European country without nationwide motorway speed limits, continues to reject despite repeated calls from civil society.

Renewable energy, a forgotten lever in France?

Electrification and the simultaneous deployment of renewable energies is an important lever for reducing dependence on fossil fuels imported from Russia and can be implemented rapidly. While France has announced simplified procedures for biomethane injection into the natural gas network, no similar effort regarding electricity is yet to be expected, despite France being the only EU country not to have reached its 2020 renewable energy deployment targets, the limited availability of a large part of the existing nuclear fleet for the next months and potential new reactors only able to start operating in 2035 at the earliest.

The German strategy for the development of renewables had already been accelerated at the end of 2021, with the objective of reaching 80% of renewable electricity by 2030 and 100% by 2035. The government backed up and reinforced these announcements in the Easter package of legislation, which aims at a near quadrupling of installed capacity for solar and a doubling for onshore wind, to 215 GW and 115 GW respectively, by 2030 (i.e., up to 22 GW and 10 GW per year), together with a reform package to speed up administrative processes. After the Russian invasion, the decision was made to not delay dates of the nuclear phase-out at the end of the year. In France, the total installed capacity of onshore wind is 18 GW and 12 GW for solar PV, aiming for respectively up to 35 GW and 44 GW by 2028. The diversification of the energy supply over the next decade is also a key part of the REPowerEU strategy and should be a priority for the new French government.

A strong need for European cooperation

One of the pillars of the European response to deteriorating relations with Russia has been to seek to diversify natural gas supplies, particularly by increasing purchases of liquefied natural gas (LNG). Additional agreements with producers were signed at the EU level and many Member States have also engaged in bilateral discussions and national-level investment in infrastructure. There is a risk that such infrastructure will become economically unviable and rapidly obsolete in light of the implementation of European climate policy, or that it will lock-in natural gas

consumption at a level that is incompatible with decarbonization.

For diversification to be an important short-term lever for the entire EU, solidarity and effective cooperation between Member States is needed. For instance, dependence on Russian imports is more pronounced in Central and Eastern European countries, while LNG terminals are mainly located in Western European countries (Spain, France, and the UK in particular). Given that additional LNG resources are limited (500 TWh according to the REPowerEU plan), a major challenge will be the fair allocation of these resources between States. In addition, the trading of gas between Member States and a generalized effort to reduce current demand would allow some States to diversify their supply without committing to new infrastructure investments.

Short-term measures in France and Germany to cope with tensions on fossil energy supply should be complemented with strategies for structural energy demand reduction and the deployment of low-carbon energy to be able to achieve the European and national climate targets. Such topics could be at the core of a closer French-German cooperation for European action.

1 The figures are the ratio of the volume of natural gas imports from Russia and the total natural gas consumption for the months of February and March 2022 (source: monthly energy data published by the Ministry for Ecological Transition).

2 Bouacida, I., Rüdinger, A., & Berghmans, N. (2022). Phasing out dependence on Russian natural gas: what strategies for the EU and France? https://www.iddri.org/en/publications-and-events/policy-brief/phasing-out-dependence-russian-natural-gas-what-strategies-eu

3 Agora Energiewende (2022). Regaining Europe?s Energy Sovereignty: 15 Priority Actions for RePowerEU https://www.agora-energiewende.de/en/publications/regaining-europes-energy-sovereignty/

4 As occurred in France following the 1970s oil crisis

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